

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 NEA-10 ISO-00 IO-13 H-02 L-03 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /105 W

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P 260706Z AUG 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9437

INFO AMEMBASSY KATHMANDU PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS : 11/26/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB SUPPLEMENTARY LOAN TO NEPAL FOR HETAUDA-
NARAYANGARH ROAD PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$4.8 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVERNMENT OF NEPAL
TO FINANCE FOREX COST OVERRUN FOR RECONSTRUCTION AND
IMPROVEMENT OF ROAD TO ALL-WEATHER STANDARD BETWEEN HETAUDA
AND NARAYANGARH CURRENTLY ESTIMATED AT 78 KM., INCLUDING
CONSTRUCTION OF TWO-LINE BRIDGES OVER FOUR MAJOR RIVERS,
AND CONSULTANT SERVICES FOR ENGINEERING DESIGN AND SUPER-
VISION OF ROAD CONSTRUCTION. IN REVIEW COST OVERRUN, NAC
GUIDANCE IS REQUESTED.

1. ADB DOC. R87-76 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHES ADDRESSEES AUGUST 17. BOARD CONSIDERATION
SCHEDULED SEPTEMBER 14.

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2. ADB MANAGEMENT PROPOSING \$4.8 MILLION SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES TO GOVERNMENT OF NEPAL FOR SUBJECT PROJECT. PROCEEDS WILL FINANCE FOREX COST OVERRUN FOR (I) RECONSTRUCTION AND IMPROVEMENT OF 78 KM. STRETCH OF ROAD TO ALL-WEATHER STANDARD BETWEEN HETUADA AND NARAYANGARH TO TOW-LANE STANDARD WITH BITUMINOUS SURFACE-DRESSED PAVMENT, INCLUDING CONSTRUCTION OF TWO-LANE BRIDGES OVER FOUR MAJOR RIVERS-RAPTI, MANAHARI, LOTHAR AND NARAYANI; AND (II) CONSULTANT SERVICES FOR DETAILED ENGINEERING DESIGNS AND SUPERVISION OF CONSTRUCTION OF CIVIL WORKS. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT PER ANNUM SERVICE CHARGE. KINGDOM OF NEPAL TO BE BORROWER AND ROADS DEPARTMENT OF MINISTRY OF WORKS AND TRANSPORT IS EXECUTING AGENCY.

3. IN DECEMBER 1972, BANK APPROVED \$10.10 MILLION LOAN FOR FOREX COMPONENT OF SUBJECT PROJECT. AT TIME OF APPRAISAL, TOTAL COST WAS ESTIMATED AT \$14.02 MILLION AND GOVERNMENT AGREED TO FINANCE \$3.92 MILLION LOCAL CURRENCY REQUIREMENT. CANADIAN FIRM OF CONSULTANTS WAS RETAINED IN OCTOBER 1973. AFTER TENDER BIDS FOR CIVIL WORK WERE CLOSED IN APRIL 1975 AND SUBSEQUENTLY EVALUATED, COST OVERRUN BECAME EVIDENT, DUE MAINLY TO SHARP RISES IN PRICES RESULTING FROM INFLATION AND OTHER DEVELOPMENTS IN WORLD ECONOMY SUBSEQUENT TO APPRAISAL IN 1972.

4. BANK EXAMINED ALTERNATIVE COURSES OF ACTION, NAMELY, POSSIBLE REDUCTION IN DESIGN STANDARDS AND REVISING SCOPE OF PROJECT. POSSIBILITY OF BORROWER UTILIZING FINANCING FROM OTHER SOURCES TO MEET COST OVERRUN WAS ALSO CONSIDERED BY BANK IN DISCUSSIONS WITH BORROWER AND CONSULTANTS. CONCLUSION REACHED WAS THAT CHANGE IN DESIGN STANDARDS WAS NOT FEASIBLE AND REDUCTION IN SCOPE WOULD SERIOUSLY AFFECT BORROWER'S DEVELOPMENT EFFORTS IN CHITWAN VALLEY, INCLUDING BANK-FINANCED CHITWAN VALLEY DEVELOPMENT PROJECT. (PROJECT ROAD TRAVERSES LENGTH OF CHITWAN VALLEY AND LINKS MAJOR TRADING AND BUSINESS CENTERS OF HETAUDA AND NARAYANGARH.) GOVERNMENT INDICATED THAT FINANCING OF LIMITED OFFICIAL USE

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COST OVERRUN FROM ITS OWN RESOURCES WAS NOT POSSIBLE BECAUSE OF ITS DIFFICULT BALANCE OF PAYMENTS POSITION AND INCREASING CONSTRAINTS ON ITS BUDGETARY RESOURCES. IT FURTHER INDICATED THAT ALTERNATIVE FINANCING FROM OTHER SOURCES WAS NOT AVAILABLE BECAUSE OF PRIOR COMMITMENT OF SUCH FUNDS TO OTHER DEVELOPMENT PROJECTS IN NEPAL.

5. IN THESE CIRCUMSTANCES, BANK AGREED TO GOVERNMENT PROPOSAL TO AWARD CONTRACTS FOR CIVIL WORKS ON SPECIFIC UNDERSTANDING THAT SUCH ACTION DOES NOT COMMIT BANK TO FINANCE PART OR ENTIRE COST OVERRUN. CIVIL WORKS CONTRACTS WERE AWARDED DURING OCTOBER/DECEMBER 1975 TO THREE CONTRACTORS FROM THAILAND, NEPAL AND INDIA. CIVIL WORKS CONSTRUCTION IS NOW IN PROGRESS AND IS SCHEDULED TO BE COMPLETED BY DECEMBER 1978, ABOUT TWELVE MONTHS BEHIND SCHEDULE ENVISAGED DURING APPRAISAL. (DELAY OF FOUR MONTHS IS DUE TO DELAY IN RECRUITMENT OF CONSULTANTS, DIFFICULTIES ENCOUNTERED BY THEM IN INITIAL STAGES, AND LONGER TIME THAN ENVISAGED FOR CONTRACT AWARDS. ALSO, CONSTRUCTION OF MAJOR BRIDGES WILL TAKE ABOUT EIGHT MONTHS LONGER THAN EARLIER ANTICIPATED.)

6. ON BASIS OF CONTRACTS AWARDED, AND TAKING INTO ACCOUNT REVISED COST OF CONSULTANT SERVICES AND OTHER ITEMS, REVISED TOTAL PROJECT COST AMOUNTS TO \$22.54 MILLION COMPARED WITH ORIGINAL \$14.02 MILLION ESTIMATE. TOTAL COST OVERRUN OF \$3.52 MILLION IS 61 PERCENT INCREASE OVER ORIGINAL ESTIMATE. IT CONSISTS OF \$4.80 MILLION FOREX COMPONENT, WHICH BANK PROPOSES TO FINANCE, AND \$3.72 MILLION LOCAL CURRENCY COMPONENT. GOVERNMENT HAS ASSURED THAT IT WILL PROVIDE FROM ITS OWN RESOURCES LOCAL CURRENCY REQUIREMENTS AND ANY UNANTICIPATED FURTHER INCREASES IN PROJECT COST.

7. PROJECT CONTINUES TO BE ECONOMICALLY VIABLE WITH SLIGHTLY HIGHER ECONOMIC INTERNAL RATE OF RETURN OF 15 PERCENT COMPARED WITH 14.28 PERCENT AT TIME OF APPRAISAL. IN VIEW COST OVERRUN, USADB LIMITED OFFICIAL USE

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REQUESTS NAC GUIDANCE.

8. REQUEST KATHMANDU'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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Message Attributes

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Margaret P. Grafeld
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